

USAID/Dominican Republic

Annual Report

FY 2004

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Dominican Republic

Performance:

Background: The Dominican Republic (DR) currently faces enormous challenges - hardship not seen in this country since the early 1990s. Serious economic and political crises - including three failed banks, a government fiscal crisis, a currency that has lost half of its value, high inflation rates, a serious shortage of electricity generation leading to sporadic localized black-outs country-wide, an intense, divisive 2004 presidential campaign, and problems with government corruption and cronyism - are collectively resonating through Dominican society and creating havoc for vital government services, especially health, education and justice. These dilemmas make USAID's work more difficult and important than ever in this country - a close U.S. ally for geographic, political and economic reasons. The biggest challenges in the year ahead will be to help the Dominican Republic regain macroeconomic balance, maintain social services and strengthen key government and democratic institutions in the face of severe budget constraints, and help Dominican citizens find the basis for faith in their elected officials, the value of the peso and the outlook for jobs and private sector-led growth. Those hardest hit by these crises are also the least culpable - the 30% of Dominicans still living below the national poverty level, mostly in rural areas and urban ghettos.

The Dominican Republic was one of the fastest growing countries in Latin America from 1996 to 2000 due largely to its relatively sound macroeconomic policies, open economy and socio-political stability. Growth slowed in the country in 2001 and 2002 in response to the U.S. recession and the effects of the September 11 terrorist attacks in the U.S. In early 2003, the collapse of the country's third-largest bank, Banco Intercontinental (Baninter), due to fraud, shook confidence in the financial sector as the country was emerging from its economic slump. Banking executives effectively had been operating a nefarious "bank within a bank" scheme, allowing them to move an estimated 2.2 billion U.S. dollars off the books and into offshore accounts and fraudulent loans to enterprises linked to bank owners and executives. The scandal and financial strains caused by the failure of Baninter were followed by problems with two smaller banks, Banco Mercantil and Bancredito. The crisis in the banking sector was a central factor in increasing economic hardship and discontent. The Central Bank intervened to secure depositors' money, which led in turn to a huge increase in the quasi-fiscal debt, sustained depreciation of the Dominican peso, large increases in the cost of living, and stagnation for salaries while jobs were being lost. Although tourism, free trade zones, and export sectors, as well as remittances are experiencing healthy growth in response to the upsurge in the U.S. economy, the internal economy, imports, and investments have fallen dramatically and capital flight is evident.

The peso fell in value from 17 to one \$ in September 2002 to over 40 to one \$ in November 2003. The depreciating peso and rising oil prices exacerbated the longstanding crisis in the electric sector, making it even more difficult for the Government to pay arrears to electricity generators. The generation companies, left with months of unpaid bills and an inability to gain further credit on the international market for petroleum to operate power plants, simply shut down. Extensive regional blackouts, some up to 20 hours long, agitated the country for several months in the fourth quarter, and it is not clear whether the GODR will be able to take the steps needed to stabilize the sector in 2004. The government's controversial decision to repurchase two previously privatized electricity distribution companies made the situation worse. Along with full ownership of these companies came their unpaid debt to power generators. The only viable, long-term solution will involve the government's ability to raise tariffs, cut subsidies and losses, and pay creditors on a systematic basis.

Although President Mejia appears to have low approval ratings, he is determined to run for re-election in May 2004. His supporters made this possible by pushing a controversial constitutional amendment through Congress in mid-2002, authorizing consecutive presidential re-election. The President's re-

election bid has met with fierce resistance from senior figures within his own ruling Partido Revolucionario Dominicano (PRD). One of the other two major political parties, the Partido Reformista Social Cristiano (PRSC) is divided over allegations of fraud in its primaries. The major opposition parties have little confidence in the National Elections Tribunal, selected by a Senate dominated by the PRD and characterized by severe infighting early in its existence and by relatively inexperienced judges, some of whom are seen by the general public as politicized. Electoral campaigning is seriously distracting the government's attention from the task of dealing with the economic crisis and the country's citizens have real doubts, for the first time since 1994, about the possibility of free and fair elections in 2004.

The government secured a two-year, US\$600m stand-by agreement with the IMF in August, but the Fund froze the program after the initial disbursement due to the government's unannounced repurchase of two of the country's three electricity distribution companies. After evaluating the effect of this purchase on the government's debt, the IMF is negotiating a revised agreement with the Dominican Republic; the new agreement is expected to gain favorable approval in early 2004.

U.S. Relations and Free Trade: President Mejia has developed good relations with the U.S. administration, especially by supporting U.S. policy in international forums and sending troops to Iraq. The United States considers the Dominican Republic a prime prospect for a free-trade agreement with the U.S. in association with the Central American Free-Trade Agreement (CAFTA) negotiations. The fact that the Dominican Republic will be expected to accept many of the terms negotiated in CAFTA is raising concerns among businesses that the agreement may not protect their interests. As one of the few countries in the Western Hemisphere that is not a member of a regional trade group, but with close commercial and cultural ties to both the Caribbean and Central American common markets, the Dominican Republic is uniquely positioned to play a key leadership role in forging the Free Trade Agreement of the Americas. In 2002, U.S. goods exported to the DR were \$4.3 billion, while U.S. imports from the DR were \$4.2 billion. U.S. foreign direct investment in the DR was \$752 million in 2001, a reduction from 2000.

Sustained economic growth and continued social and political progress in the country depend upon increasing the country's competitiveness in world markets, resolving the electricity crisis, protecting the fragile island environment so critical to the tourism industry and to the availability of water, addressing the health and education needs of the country's poor and disenfranchised, bringing widespread corruption under control, strengthening rule of law and reinforcing key government and democratic institutions. The fact that the country shares the island of Hispaniola with Haiti, one of the few failed states in the Western Hemisphere, adds additional development challenges. The DR serves as a source of employment and public services for large numbers of Haitians, while the porous border creates a real challenge in controlling illegal activities such as smuggling of drugs, arms and aliens into the country. Trafficking in persons, both across the border and within the DR, is a continuing problem. The increasing unrest in Haiti, while the DR is in economic crisis, adds to historic tensions between the two sides of the island.

On the social side, the 2002 Demographic and Health Survey (DHS/2002) shows an HIV/AIDS seroprevalence rate of 1.0% in the adult population, with certain age groups and regions higher than the national average. For example, the rate among residents of Bateyes (communities of former and current sugarcane laborers) is 5%. Total fertility rate was measured at 3.0, below the average for Latin America and the Caribbean. However, with 96% of mothers being delivered with a trained attendant, paradoxically, maternal mortality continues to be high, estimated at 178 deaths per 100,000 live births. Infant mortality is 31 per 1000 births, although vaccination rates and potable water coverage rates in rural areas continue to be low. The fully vaccinated coverage rate in 2002 was only 34.9%. In an effort to address the inefficiencies and inequities of the health care system, the country is undertaking a major sector reform. Implementation of the new social security health insurance system will be gradual, as it requires additional resources and technical capabilities. Thus, inequities in accessing quality health services remain an important issue. The quality of basic education is poor, particularly for children in rural areas, and public investment in education remains relatively low. Additionally, the perpetual influx of illegal and transient Haitians adds to the country's poverty burden and further strains the already inadequate health and education services.

U.S. Interests and Goals: The U.S. Embassy's Mission Performance Plan (MPP) for the Dominican Republic gives USAID a principal role in helping to sustain economic development, to promote democracy and human rights, and to improve health and fight the spread of HIV/AIDS and other diseases. As State and USAID planning merge under the joint State/USAID Strategic Plan for 2004-2009, USAID will take the lead on key performance goals under the Joint Strategic Goals of Economic Prosperity and Security, Democracy and Human Rights, and Social and Environmental Issues. Sustainable and equitable economic growth and strengthening of transparent and accountable democratic institutions in the Dominican Republic are central to U.S. interests in trade, investment, regional security and strengthening democracy and human rights in the Western Hemisphere. Helping achieve sustained and inclusive economic growth and improved health also help to reduce illegal immigration to the United States, while strengthening the justice system and fighting corruption also support U.S. interests in fighting international crime and terrorism.

The USAID program operates under a Strategic Plan for 2002 - 2007 that responds to the country's development needs, U.S. national interests, and stated development priorities of the Dominican Government and a broad spectrum of civil society groups. USAID assistance is concentrated in three areas: Economic Growth (SO 517-008); Democracy (SO 517-009); and Health (SO 517-010). These Strategic Objectives collectively concentrate on policy reform measures, institutional changes, and public-private partnerships that help expand trade and investment, improve fiscal and internal debt management, increase job creation and income opportunities for the poor, help Dominicans be more competitive in world markets, reform energy policy and expand rural electrification, improve environmental protection, improve educational quality and opportunities, foster continued democratic progress through strengthening of the rule of law, political and electoral reform and anti-corruption measures, fight the spread of HIV/AIDS, and improve the health and welfare of poor women and children. USAID's ultimate beneficiaries are the country's poor, although all Dominicans will benefit from increased economic growth, strengthened democratic institutions, and a reformed health care system.

Other Program Elements: In addition to the bilateral program, USAID's other program activities in the Dominican Republic include initiatives in democracy, economic, health, education, environment, and disaster mitigation program areas. These activities include participating in the Presidential Initiative "Centers for Excellence in Teacher Training"; inclusion in a LAC regional project for Increased Competitiveness of Higher Quality Coffee Exports; a regional Parks-in-Peril program with The Nature Conservancy; an energy regulatory partnership with the U.S. Energy Association (USEA) and a power sector assessment managed through USAID's Economic Growth, Agriculture and Trade Pillar Bureau; disaster mitigation activities with OFDA; labor related trade policy initiatives with PROALCA (a Central America regional program); municipal and civil society anti-corruption activities with the regional Americas, Accountability, Anti-corruption Program; a multi-sector U.S. scholarship program (CASS) with Georgetown University; and activities under three centrally-funded public/private alliances - one for rural electrification cooperatives with the National Rural Electric Cooperative Association (NRECA), one for basic education activities under the Partnership for Educational Revitalization in the Americas (PREAL) program and a third one aimed at connecting local labor markets with young people interested in information technology careers (Entra 21). USAID/DR also manages Washington funded initiatives to reduce trafficking in persons and Hispaniolan Haiti/DR bi-national programs to reduce tensions and foster joint development efforts along the border.

Donor coordination: Donor coordination in the Dominican Republic is good. Sector specific donor roundtables meet regularly to exchange information on issues, funding and activities. USAID activities are coordinated closely with other donors and are particularly designed to complement Inter-American Development Bank (IDB), World Bank (WB) and United Nations (UN) multilateral assistance. Development assistance to the DR in calendar year 2002 totaled \$318 million. In actual disbursements, the U.S. was the largest bilateral donor (\$56.5 million), followed by Venezuela (\$25.6 million, mostly monetized petroleum for transportation and urban infrastructure); Japan (\$24.1 million in agriculture, education, water, urban infrastructure and health), Spain (\$14.9 million in governance, education, environment, health, infrastructure, tourism and private-sector development) and Taiwan (\$11.5 million in agriculture, education, environment and hospital construction). Other top bilateral donors include Brazil, Germany and France. Multilateral donors include the IDB (the largest donor overall, at \$112 million), the

WB (\$59 million), the European Union (\$11.4 million), and the full complement of UN agencies.

Key Achievements: FY 2003 was an unexpectedly challenging year, with USAID meeting most of its targets while responding to the rapidly changing conditions in the country. The approved Strategy moved the Mission from a design and planning phase into full implementation, with grants and contracts signed and local partners fully engaged. All three USAID Strategic Objectives aim to reform policies and institutions or inform citizens about important reform issues. When successful reforms are passed, USAID helps the government and other development partners prepare for the appropriate and successful implementation of these new policies. USAID programs with the most direct service provision are the education and health programs, but they also strive to achieve improved policies and institutions for more effective use of Dominican government resources. All USAID programs in the DR strive to leverage both partners and resources to coalesce around specific development objectives to achieve greater results.

Economic Growth Results: USAID assistance in fiscal and energy policy reform is playing an important role in restoring macroeconomic stability. The Securities Exchange installed software and registered eight brokers with USAID support, paving the way for the establishment of a secondary market for the more than DR\$60 billion increase in GODR securities resulting from the banking crisis. In energy policy USAID assisted the GODR with an in-depth analysis of, and recommended options for, the long-term sustainability of the electricity sector. The Mission provided training to GODR negotiators for the FTAA and bilateral Free Trade Agreement. As part of this activity, USAID and the GODR collaboratively analyzed important issues to consider in determining negotiation positions on textile and apparel-related market access. USAID formed a public/private partnership in the tourism industry to implement a communications, image, and advertising strategy for an international tourism campaign to help expand market contacts and shift from mass-market tourism to an upscale market. The Mission also supported the creation of three public/private alliances to improve electrification in rural and periurban areas. The Secretariat of Education incorporated recommendations from USAID supported seminars on using achievement data to measure and improve educational quality into their ten-year reform plan. Five private sector sponsors committed to the school sponsorship program and adopted six schools between them. The total number of children registered in sponsored schools is presently 2,465.

Health and Population Results: With USAID support, the National Tuberculosis Program made impressive advances in implementing the Directly Observed Treatment Short Course Strategy (DOTS) over the past year. The targets for detection and treatment rates were far exceeded. The detection rate increased from 53% in FY02 to 73.4% in FY03. Cure rates increased from 37% in FY02 to 77.4% in FY03. An USAID-funded mass media campaign to promote the use of condoms among sexually active youth was launched in August of 2002 with airtime contributed by TV and radio networks. The newly launched Pante condom social marketing program sold 700,000 condoms in the first four weeks. The number of clients using the services of Voluntary Counseling and Testing centers (VCT) increased exponentially between 2002 and 2003, to 46,731. One thousand children affected by HIV/AIDS have been reached through NGO programs. The USAID program contributed to improved national vaccination coverage rates. DTP3 coverage rate increased from 47.3% in FY02 to 76.7% in FY 03. In accordance with the new MOH vaccination scheme and as of FY 2003, DPT3 coverage is based on the pentavalent vaccine. USAID has contributed to measurable advances in the overall health reform process and in the Eastern Health Region assigned to USAID. Critical bylaws were formulated and approved for the National Health Insurance System, and the gradual implementation of the subsidized scheme was initiated. With USAID technical assistance and funding, the National Health Insurance Agency (SENASA) developed a system for the identification and classification of beneficiaries of the social security subsidized scheme, which will guarantee access to quality basic care to Dominican poor. There is a clear trend towards improving the management culture and practices among Ministry of Health (MOH) teams in Eastern Region V that has positively affected the delivery of health services. Three provinces reported a combined utilization index for vaccines and ambulatory care in MOH facilities of 69.2% in 2002 and 79.6% in 2003, thus showing an increase of 15%.

Democracy and Governance Results: With USAID supported civil society advocacy, the Public Ministry Career Statute was passed, establishing the framework for civil service reform within the Public Ministry. There is increased access to justice for the poor and disenfranchised as a result of the Judiciary

establishing a Judicial Defense Office with USAID technical assistance and support to select and train fourteen judicial defenders and two investigators who have resolved nearly 600 cases this year. USAID-supported civil society helped ensure free and fair elections by observing the political primary elections of two of the three major Dominican political parties. The third party has yet to hold their primary. The SO met expectations by helping to establish a coalition of over 50 Dominican civil society organizations interested in transparency and accountability. This coalition is actively engaged in ensuring that the Baninter bank fraud is investigated and prosecuted and that the 2004 presidential election is free and fair. In addition, the Mission made progress in making political parties more democratic by conducting training programs with promising young leaders from these political parties.

Country Close and Graduation:

Not applicable.

Results Framework

- 517-002 Increased Use of Sustainable Basic Health Care Services and Practices**
- 517-003 More Participatory, Representative and Better Functioning Democracy Achieved**
- 517-005 Hurricane Georges Recovery and Reconstruction**
- 517-007 Policies Adopted that Promote Good Governance and Sustained Economic Growth**
- 517-008 Increased Sustainable Economic Opportunities for the Poor**

SO Level Indicator(s):

- Number of children enrolled in sponsored schools
- Number of new electric connections resulting from USAID interventions
- Number of new jobs created as a result of USAID interventions

- 8.1** Improved conditions for a more competitive economy
- 8.2** Improved policies for environmental protection
- 8.3** Improved basic education through community and private sector participation

- 517-009 More Participatory, Representative and Accountable Democracy Achieved**

SO Level Indicator(s):

- Expert panel assesses progress using representativeness and accountability indices
- The number of policies approved with civil society influence
- 9.1** More representative and effective electoral system with effective civil society participation
- 9.2** More democratic political system with effective civil society participation
- 9.3** Strengthened rule of law and respect for human rights
- 9.4** Enhanced public sector anti-corruption systems

- 517-010 Sustained Improvement in the Health of Vulnerable Populations in the Dominican Republic**

SO Level Indicator(s):

- HIV seroprevalence rate
- Infant mortality rate
- Total fertility rate

- 10.1** Increased use of services and practices to prevent and mitigate HIV/AIDS in at risk population
- 10.2** Sustainable, effective reproductive health/family planning services provided by public and private sectors
- 10.3** Increased use of selected, effective child survival services
- 10.4** Increased efficiency and equity of basic health care services at the local level